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MILITARY-ECONOMIC ADVISORY PANEL

*Second Annual Report to the Deputy Director
for Intelligence*

22 January 1976

SECOND REPORT

22 January 1976

MILITARY-ECONOMIC ADVISORY PANEL (MEAP)

Panel Members:

Abraham S. Becker

K. Wayne Smith

Holland Hunter

Stanley I. Weiss

Herbert S. Levine, Chairman

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I. INTRODUCTION

A. The Charge to the Panel

The aims established for MEAP were described in the Panel's First Report (1 July 1974) as follows:

The establishment of a CIA Military-Economic Advisory Panel was approved by the Director of Central Intelligence to advise the Deputy Director for Intelligence on the present adequacy, validity, and usefulness of CIA's military-economic work, and on possible ways to improve it.

The US national interest requires careful evaluation of Communist military and economic activity. Its dimensions and details are complex and very incompletely revealed by the countries involved. Serious differences of opinion face US policymakers in evaluating available evidence. The problem is to minimize uncertainty and inconsistency, and to marshal the evidence persuasively in forms directly applicable to decisionmaking.

The Panel was asked to make suggestions for improvements in:

- a) the formulation of intelligence questions,
- b) research tasks to undertake,
- c) research methods to employ,
- d) ways to organize the research effort, and
- e) the form and scope for disseminating research findings.

B. Meetings of Panel

In the period since the previous Report, the Panel has held sessions, with all members present, on the following dates:

16-18 June 1975
5-6 December 1975

C. Focus of Report

In its First Report, the Panel surveyed a broad range of issues relevant to its charge. In this Report, rather than address a similar broad range of topics, the Panel has chosen to focus its attention on several key issues, some old, some new, which it feels warrant special attention at the present time.

D. The Panel and the Agency

The Panel is pleased with the generally positive response of the Agency to the recommendations made in the Panel's First Report. We are aware that one of the easiest of all tasks is to make recommendations without having to take the responsibility for implementing them.

Further, the Panel realizes that its menu of recommendations, from the current and previous reports, is long, and the resources of the Agency are not unlimited, and thus that the Agency will have to decide which recommendations it will be able to implement and which it will have to defer.

Finally, the Panel wishes to express its gratitude for the cooperation it has received from the Agency and from DIA in the pursuit of its tasks.

II. SOME KEY ISSUES

A. Changing Role of the Agency

The Panel is keenly aware of the changing environment in which the Agency must now function.

The increased openness of the Agency's analytical work, as exemplified by the publication in 1974 and 1975 of the Proxmire-Colby Hearings on the Allocation for Resources in the Soviet Union and China, is an event of major importance. The Panel supports this increased openness; indeed it called for it in its First Report.

At the same time, the Panel is also aware of the potential pitfalls inherent in this change. If it does not mark the beginning of the Agency's full participation in the public debate regarding national security issues, it surely marks the end of its ability to select when and how it will participate in the debate. The public arena differs in basic ways from the interagency arena in which the Agency has traditionally functioned. If the Agency is to continue to provide objective analysis of the highest quality, its analysts and its analysis must be protected from the obvious political pressures that increased participation in the public arena will bring. Both must continue to focus on what's right, rather than who's right. It will be no small task to keep this focus and preserve the quality of the Agency's analytical output. No other analytical organization within the Federal Government at the present time has the resources or the bureaucratic inclination or the professional skills to provide the kind of objective military-economic analysis that the Agency has traditionally provided. No other organization has contributed more to the nation's analytical capital stock in these areas. It would be a major tragedy if this capability was seriously reduced by bowing to the political demands of the moment or by acquiescing to arrangements that make objective analysis impossible.

The Panel believes strongly that the Agency's ability to adapt to the new ground rules and to the consumers is a matter of fundamental importance and one that must be given careful consideration at the highest management levels. It is no overstatement to say that the Agency's relationship with its new consumers in the public arena will be a key ingredient in its continued effectiveness in the policy determination process. The basic parameters of this relationship are being forged now. Precedents are being set now. New operating modes and behavior are being established now. Now, the Panel believes, is the

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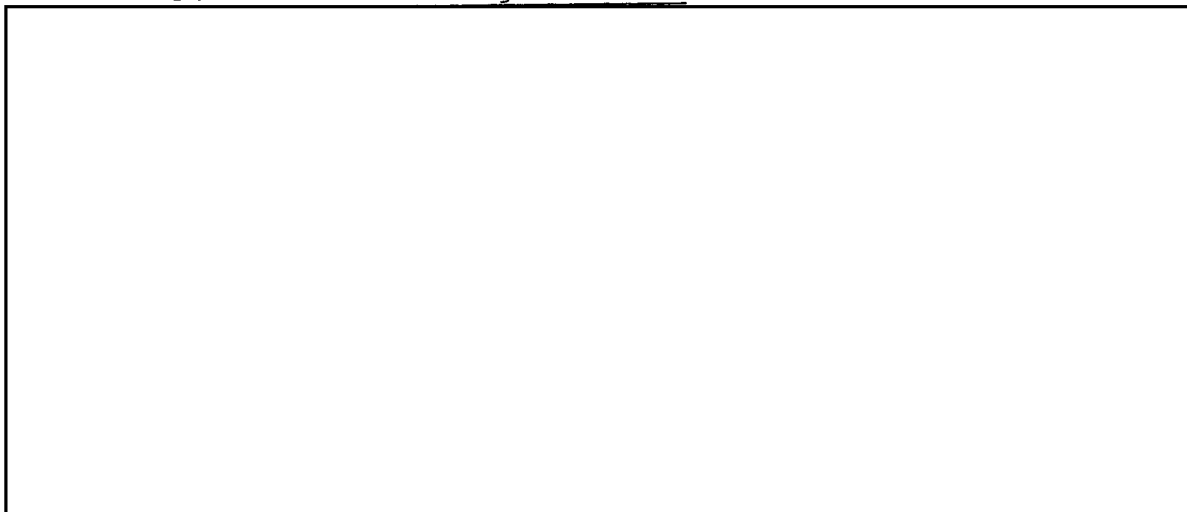
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the dollar value of U.S. defense expenditures. The restricted meaning of the Agency's dollar estimates of Soviet defense spending ('what it would cost the U.S. Government to buy the Soviet forces in the United States') has not been successfully--nor, unfortunately, consistently--communicated (see for example the 28 November 1975 response to Congressman Les Aspin's letter of 6 November 1975).

The Panel recommends that the Agency consistently include a statement about the restricted meaning of its dollar estimates of Soviet defense expenditures whenever it communicates these estimates to users. Further, the Panel recommends that the Agency undertake at this point a thorough review of the twenty year history of dollar costing covering the original decisions to undertake dollar costing, cataloging the efforts made to explain the theoretical issues and limitations, and summarizing the record of the use and misuse of dollar estimates. The report should include the survey of users of CIA military-economic analysis which was recommended in our First Report and which has been undertaken, and it should also include a discussion of possible ways of proceeding from the present situation.

The Panel also recommends that the Agency prepare a report on ruble comparisons of U.S.-Soviet defense expenditures, especially on the problem of ruble costing of U.S. defense expenditures. The report should cover the theoretical issues (including, for example, the ruble costing of U.S. equipment that is currently beyond the technical capabilities of Soviet defense industry), and the practical experience that OSR has had in this area to date.

D. Direct Costing and SCAM



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to a proper assessment of the relative military capabilities of the Soviet Union and the United States. The Panel recognizes the fundamental difficulties and intractabilities inherent in the problem, but the issue is vital and the Panel recommends that higher priority be given to its pursuit.

The Panel notes that work on the estimation of Soviet military stocks (in Tac-Air) began, but has been suspended. The Panel recommends that this work be resumed, for the Panel feels that it shows promise of leading to at least a first step, the estimation and comparison of selective stocks of military equipment.

For comparison purposes, it is of course necessary that estimations of U.S. military stocks be made. Since this is not within the mission of CIA, the Panel recommends that efforts be made to convince the appropriate office within DoD to initiate efforts to estimate the U.S. stocks of military equipment.

F. The Allocation of Agency Resources

In the Agency's allocation of scarce resources among the activities of data collection, processing, analysis, and reporting the Panel recommends that increased efforts be devoted to analysis. The Panel recognizes that in the emerging environment of openness (referred to above in II. A.), there will be further pressure on CIA and DIA resources from increased calls for information from outside users. This pressure presents a danger to the maintenance of analytical work, let alone its enlargement. The Panel urges that special attention be paid to protecting and expanding the analytical function.

Furthermore, the Panel recommends that within the realm of analytical work, increasing attention be paid, by both CIA and DIA, to fundamental analytical issues. In this regard, the Panel strongly supports the Agency's policy of encouraging and facilitating the maintenance and improvement of the professional skills--the human capital--of its analysts.

Within a larger context of the resource allocation issue, the Panel looks with increasing alarm at what it views as a decrease in the priority being given by the Agency to Soviet economic matters. In particular, the Panel continues to be concerned about the deemphasis within OER of work on the Soviet Union. As the Panel stated in its First Report (p. 12), "This office [OER] is an important national resource whose work makes a major contribution to Western appreciation of Soviet reality...." The Panel realizes that new tasks, related to important current policy issues, are being pressed upon the Agency. But the Panel strongly urges that the Agency protect its Soviet economic resources. An environment of the relaxation of East-West tensions should not be used to reduce the resources devoted to the study and analysis of Soviet economic capabilities. Indeed, in an environment of potential change within the Soviet Union, of possible rethinking of economic priorities, it is even more important to maintain our national resources on the study of the Soviet economy, for in such an environment the knowledge of past behavior may well be a poor guide to the proper evaluation of future Soviet behavior.

The Panel recommends that the trend within the Agency of decreasing resources devoted to the study of the Soviet economy be reversed. The Panel does not, at this time, wish to make specific recommendations as to the means for achieving this reversal--the mix of policy change and administrative change.

G. Revision of Agency Estimates

The Panel supports the Agency policy of regular annual review of defense expenditure estimates, and the revision of estimates to incorporate new information and analysis. While such revisions may be disconcerting to the users of these estimates, it is vital that this policy be maintained. The usefulness of the Agency's work would be seriously impaired if it were to abandon this policy in favor of a defensive attitude toward its past estimates.

It is clear that, at present, major revisions are being undertaken. In its 31 October 1975 memo to A.W. Marshall, the Agency stated that, as a result of ongoing revisions, uncertainties about its estimates have increased and that at present it has less confidence in its defense expenditure estimates than was true in the past. Thus, the Panel prefers to wait until the revisions are completed, and the present uncertainties are reduced, before commenting on the estimates and their revisions.